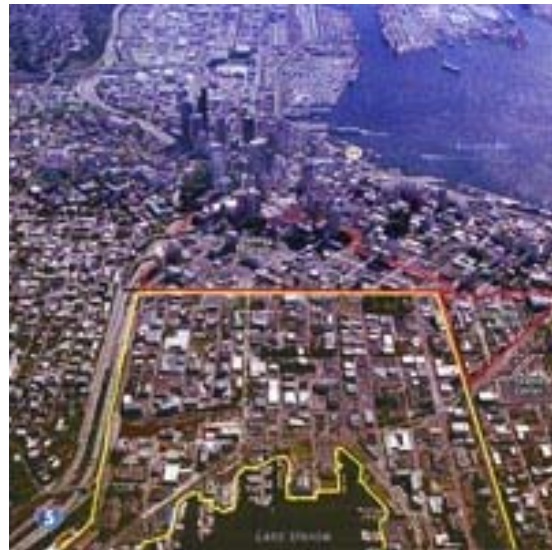




DRAFT REPORT  
**SOUTH LAKE UNION DEVELOPMENT  
INVESTMENTS AND REVENUES REPORT**

BY CITY OF SEATTLE OFFICE OF POLICY AND MANAGEMENT  
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Designated as a Hub Urban Village in 1998, the South Lake Union neighborhood has the potential for significant growth in jobs and housing over the next twenty years. Recent economic activity in the neighborhood, like the siting of the University of Washington research facilities and the announcement that Merck will move to South Lake Union, suggests that growth will exceed previous estimates.

In April this year, Mayor Nickels launched a "South Lake Union Agenda," a program to provide the infrastructure and neighborhood improvements necessary to encourage and support job and housing growth. To provide policy makers with a comprehensive analysis of proposed investment costs and likely revenues, the City undertook two sets of analyses—a revenue projection for increased tax receipts and an analysis of the infrastructure costs associated with supporting the projected growth. The report that follows combines the results of these two studies in order to compare the costs and benefits of economic activity in South Lake Union.

This report was prepared by the Office of Policy and Management, in concert with the Department of Finance and all other City departments with projects in the planning stages for South Lake Union. It presents the proposed capital improvement projects and outlines the potential sources of public and private funding necessary to complete them. Additionally, this report examines the relationship between the capital

costs for infrastructure improvements and the projected revenues generated by private development. For projections of tax revenues derived from economic activity, this report incorporates data from the study conducted by Dr. Paul Sommers, Draft Potential Economic and Fiscal Impacts of South Lake Union Development, which is being released with this draft report.

## Key Findings

- **The total estimated economic benefit to the City of Seattle's General Fund from the potential development in South Lake Union is \$247 million in net present value over the 2005-2025 period.<sup>1</sup>**
- **The total estimated economic benefit to all public agencies in Washington State from the potential development in South Lake Union is \$1.39 billion in net present value over the 2005-2025 period.**
- **The total investment cost for all proposed capital projects in the South Lake Union neighborhood is \$421 million. More than half of this (\$216 million) will be paid for by private funders and new ratepayers. An additional \$16 million may be derived from federal sources and \$6 million through the voter-approved Pro Parks levy.**
- **The remaining \$189 million will be paid by public sources in Washington State (Seattle, RTID, State). The City of Seattle's General Fund would contribute an estimated \$30 million.**
- **The total tax revenue stream to the City of Seattle's General Fund from the potential development in South Lake Union is more than eight times the total estimated infrastructure costs to the City of Seattle's General Fund.**
- **In the 2004-2007 period (Phase I), more than 3 million square feet of development is planned to come into service. The revenue stream generated by just these Phase I projects to the City of Seattle's General Fund total \$65 million in net present value terms during the study period, or more than twice as much as the total estimated infrastructure costs to the City of Seattle's General Fund.**

## Background

In order to better understand the potential for economic development in South Lake Union, the city retained Heartland in 2002<sup>2</sup> to conduct a study of SLU's capacity for growth. The Heartland Report concluded that development activity in South Lake Union could create more than 23,000 new jobs through the construction of up to 7.2 million

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<sup>1</sup> "Net present value" refers to future dollar values expressed in today's dollar amounts. Example: \$1 million in 2025 would be the equivalent of \$540,00 today. The 2025 amount is smaller due to anticipated future economic conditions. The Draft Potential Economic and Fiscal Impacts of South Lake Union Development estimates that the net present value to the City of Seattle's General Fund of projected South Lake Union development is between \$224 million and \$269 million. This report uses the midpoint, \$247 million, for its analysis.

<sup>2</sup> *Permit review and mobility pilot: South Lake Union*. Progress report by Heartland for City of Seattle Strategic Planning Office, April 2002.

square feet of net new commercial space and almost 11,000 units of new housing. Heartland projected that 35% of the job growth may come from the biotechnology and life sciences industry sector.

The Heartland study recognized, however, that achieving this potential growth will require new investments in infrastructure. Planning and engineering work by City departments supports this assessment. The transportation system, transit service, utility infrastructure and parks and open space are all inadequate to support such significant potential growth. Puget Sound growth management principles call for public infrastructure investments in communities achieving greater density goals. These infrastructure improvements will be necessary to achieve the job creation and economic development potential of South Lake Union.

It is important to note that most public investments require contributions from many parties, and every stream of public revenue is similarly shared by multiple jurisdictions. To analyze the costs and benefits of public investments, this report identifies the potential sources of funding to the extent possible (given that projects are still in planning stages), as well as the specific revenue stream likely to return to each jurisdiction. Through this methodology, city policymakers can compare the costs and benefits in a consistent and accurate manner.

While this report, along with the Draft Potential Economic and Fiscal Impacts of South Lake Union Development, strives to capture the financial implications of the development in this neighborhood, it should be noted that these reports do not attempt to quantify the entire public benefit of the infrastructure investments. Presumably, the largest share of the benefits accrue to the South Lake Union neighborhood itself, but users throughout the City and the region will enjoy the benefits of improvements, such as a new urban shoreline park, safe bicycle and pedestrian routes connecting neighborhoods to the east and west and increased capacity and system reliability for City Light ratepayers in adjacent neighborhoods. Using the most conservative analysis, this report implies that benefits from capital investments remain entirely within the South Lake Union neighborhood.

## Public Infrastructure Investments in South Lake Union

Numerous public infrastructure investments are being considered for the South Lake Union neighborhood to meet its economic growth potential and to implement the community's goals articulated in the South Lake Union Neighborhood Plan. In the following analysis of public investments, the funding sources for each project are detailed. For some of the projects, the distribution of costs is well defined. Many of these projects, however, are in early phases of development, and neither the cost estimates nor the funding sources have been fully determined. In each of these cases, this report uses estimated amounts by attributing a potential amount of funding resources to various public and private sources using the best judgment of city staff.

### South Lake Union Park

Development of the South Lake Union Park is the top neighborhood priority based on the South Lake Union Neighborhood Plan. The overall cost for the park is estimated at \$20 million. Initial planning work was done by the Seattle Parks and Recreation Department. The subsequent design work will cost an estimated \$2.5 million. This design work and the initial \$2.5 million for implementation were included in the Pro Parks Levy, passed by voters in 2000. The Seattle Parks Foundation has made the South Lake Union Park their top priority for private fundraising. A recently completed study for the Parks Foundation determined that up to \$15 million from private funds could be raised for this project.



For this analysis, a \$10 million figure is used for this private fundraising contribution to the project. The additional \$5 million gap is included in the City of Seattle General Fund category in order to conservatively estimate all potential city taxpayer obligations.

Projected funding summary for South Lake Union Park:

City General Fund	\$ 5 million
Voter-approved funds	\$ 5 million
Private fundraising	<u>\$10 million</u>
<b>Total</b>	<b>\$20 million</b>

### South Lake Union Wharf

The renovation of the wharf at the south end of Lake Union is also a priority of the neighborhood plan. The project will complete the dock space for historic vessels and provide a showcase for Northwest maritime heritage. The total cost of the project is estimated to be \$3.5 million. Private funding is expected to contribute \$1.6 million. State

and federal sources have invested another \$400,000. The total cost to the City of Seattle is estimated to be \$1.5 million, of which \$600,000 was appropriated in the 2004 City budget<sup>3</sup>.

Projected funding summary for South Lake Union Wharf:

City General Fund	\$1.5 million
Federal and state funding	\$ .4 million
Private fundraising	<u>\$1.6 million</u>
<b>Total</b>	<b>\$3.5 million</b>

#### Cascade Park

The redevelopment of Cascade Park will provide enhanced open space in the heart of Cascade, the residential center for the South Lake Union neighborhood. This \$1.1 million project has secured \$600,000 in private funding from adjacent property owners. The remaining \$500,000 will be covered by the Pro Parks Levy funds.

Projected funding summary for Cascade Park:

Pro Parks Levy	\$ .5 million
Private fundraising	<u>\$ .6 million</u>
<b>Total</b>	<b>\$1.1 million</b>

#### Viaduct Northern Portal

The transportation challenges in South Lake Union are exacerbated by the disruption to the street grid between South Lake Union and Queen Anne due to State Route 99 (SR 99) and Broad Street. A re-connection of this grid for pedestrians, bicycles, cars, trucks and busses is an important transportation improvement for the neighborhood, Seattle Center and surrounding neighborhoods. The Washington State Department of Transportation (WSDOT) is conducting an Environmental Impact Statement (EIS) for the replacement of the Alaskan Way Viaduct. Part of this WSDOT project includes the northern portal of the Battery Street tunnel, the section of SR 99 that divides South Lake Union from Queen Anne. In four out of the five EIS alternatives for this project, there are plans to reconnect some of the streets across SR 99. These plans range from a cost of \$35 million, to make at-grade connections, to \$240 million for a lowered SR 99 with up to five reconnected streets. The most likely scenario is a \$55-\$80 million plan which reconnects Thomas Street and widens the Mercer Street underpass to seven lanes. WSDOT is the lead agency for this project and funding will be included in the Alaskan Way Viaduct project.

For this analysis, the higher budget number is used as an estimate, and 15% of the overall costs is attributed to the Seattle City General Fund as a conservative estimate of a

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<sup>3</sup> The \$600,000 appropriated in the 2004 City of Seattle Budget comes from Real Estate Excise Tax (REET) funds. For this analysis, this amount is listed in City of Seattle General Fund for simplicity.

local contribution to this WSDOT project. The remaining \$68 million is attributed to the RTID.

Projected funding summary for the Viaduct Northern Portal project:

RTID	\$68 million
City General Fund	<u>\$12 million</u>
<b>Total</b>	<b>\$80 million</b>

*Mercer Corridor East of Dexter*

The Mercer mess has been a long-standing transportation challenge for the City of Seattle. The corridor is defined as one with regional significance. The 60,000 to 82,000 cars that use this corridor daily weave their way westbound through an S-shaped route that is confusing and indirect. Mercer and Valley Streets are barriers to local access and are not supportive of the pedestrian and transit-oriented development envisioned for this neighborhood. Furthermore, Valley



Street, as a five-lane thoroughfare, presents an inhospitable front door which impedes access to the emerging regional park at South Lake Union.

Seattle's Department of Transportation is scoping alternatives in a Draft Environmental Impact Statement process. The alternatives include creating a two-way Mercer or enhancing the Mercer-Valley one-way street configurations to manage traffic demand and support other transportation and community development goals for the neighborhood. The estimated total cost of the two-way Mercer alternative is \$80 to \$90 million. Conceptual costs for other alternatives will be estimated within the scoping process. As is the case with the Viaduct, this transportation improvement is a regional and statewide project. The King County project list for the Regional Transportation Improvement District (RTID) includes \$71 million for this project. For this analysis, an additional \$10 million is projected to come from Federal sources and the remaining \$9 million from the City General Fund.

Projected funding summary for Mercer Corridor east of Dexter:

RTID	\$71 million
Federal Funding	\$10 million
City General Fund	<u>\$ 9 million</u>
<b>Total</b>	<b>\$90 million</b>



### South Lake Union Streetcar

The South Lake Union streetcar will provide the South Lake Union and Denny Triangle neighborhoods with an alternative transportation mode to move within their neighborhoods and to connect to regional transit systems at Westlake Center. The total estimated cost is \$45 million. Potential funding sources for the streetcar include \$25 million from a Local Improvement District (LID), \$3 million in state grants, \$6 million in federal grants<sup>4</sup>, and \$11 million in regional transportation funding<sup>5</sup>. The City of Seattle would be part of the LID because it owns property along the route. The Seattle Department of Transportation will prepare a complete funding plan for the streetcar by June 2004.



Although the streetcar line will provide transit from the Central Business District through the Denny Triangle as well as through South Lake Union, all of the expense is allocated to the South Lake Union neighborhood for the purpose of this report.

Projected funding summary for the South Lake Union Streetcar:

LID (private)	\$22.5 million
LID (City General Fund)	\$ 2.5 million
State funding	\$ 3 million
Federal funding	\$ 6 million
Regional public funding	<u>\$11 million</u>
<b>Total</b>	<b>\$45 million</b>

### Seattle City Light Infrastructure

An additional infrastructure requirement for South Lake Union's economic development is electricity. The current Seattle City Light (SCL) electrical grid in the downtown and Interbay areas is unable to accommodate the potential electricity demand in South Lake Union. Consequently, SCL has prepared a flexible plan to upgrade its power distribution infrastructure to assure electrical supply for its new customers. The flexible investment plan consists of three phases:

- Broad Street Substation feeder improvements (\$10 million, in progress)
- Interbay Substation construction (\$21 million<sup>6</sup>, scheduled for 2006)
- South Lake Union Substation (\$149 million, scheduled for 2010-20)

<sup>4</sup> The FY2004 Federal Transportation Budget includes \$3 million for the streetcar. For this analysis, another \$3 million in federal funding is projected.

<sup>5</sup> Regional sources of funds could include RTID, the Puget Sound Regional Council (federal funds distributed to the region), Sound Transit and transportation mitigation fees.

<sup>6</sup> The total capital cost for the Interbay Substation is \$42 million. It will produce 104 megawatts of energy. SCL plans to utilize 52 megawatts for the South Lake Union area, and therefore the amount listed is a \$21 million pro-rated share for SLU.

Providing the infrastructure to deliver additional electricity to South Lake Union will cost an estimated \$181 million. New City Light ratepayers in that neighborhood will cover all of these capital costs (Broad Street improvements, Interbay and SLU substations) over a 25-year period.

Projected funding summary for Seattle City Light infrastructure:

New SLU ratepayers	<u>\$181 million</u>
<b>Total</b>	<b>\$181 million</b>

Summary of Infrastructure Investments

Table 1 summarizes the estimated infrastructure project costs associated with the South Lake Union development by potential sources of funding.

**Potential Sources of Funds**

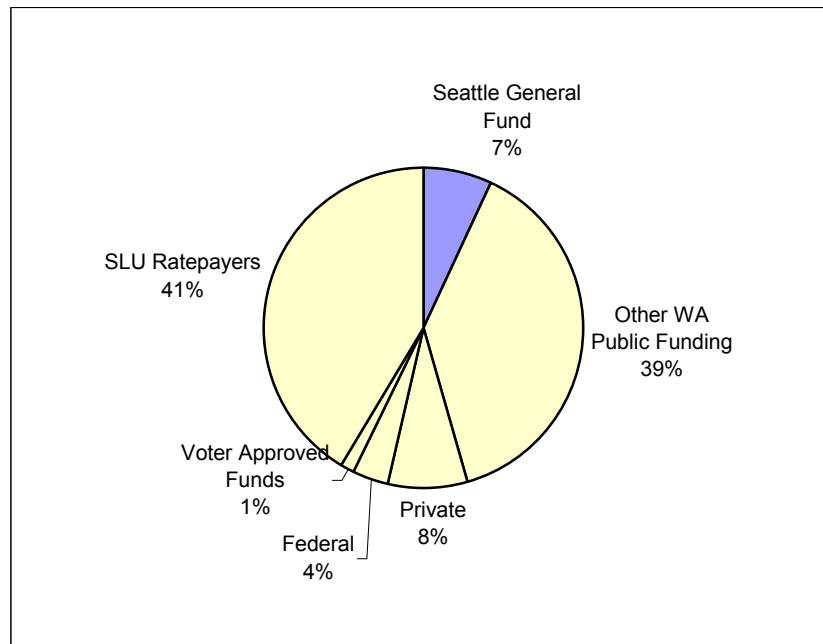
Total Washington State Public Sources					Federal	Private	Ratepayers		
City of Seattle		Other WA Public Sources							
	City GF	Voter Approved Funds	RTID	State	Other Public	Federal	Private	SLU New Ratepayers	Total
South Lake Union Park	\$5.0	\$5.0					\$10.0		\$20.0
SLU Wharf	\$1.5			\$0.4			\$1.6		\$3.5
Cascade Park		\$0.5					\$0.6		\$1.1
Viaduct Northern Portal	\$12.0		\$68.0						\$80.0
Mercer Corridor East of Dexter	\$9.0		\$71.0			\$10.0			\$90.0
SLU Streetcar	\$2.5			\$3.0	\$11.0	\$6.0	\$22.5		\$45.0
Seattle City Light Infrastructure								\$181.0	\$181.0
Sub Total	\$30	\$6	\$139	\$3	\$11				
Total	\$189					\$16	\$35	\$181	\$421

Table 1. Total estimated infrastructure costs in millions of dollars for South Lake Union, identified by potential funding source.

The total infrastructure cost for South Lake Union projects is estimated at \$421 million. The potential revenue sources for this investment are summarized into the following categories:

- City of Seattle General Fund--\$30 million
- City of Seattle voter approved levies--\$6 million
- New SLU electrical ratepayers--\$181 million
- Private funding--\$35 million
- Other Washington State public funding--\$153 million
- Federal funding--\$16 million

The City of Seattle's estimated General Fund obligation for the infrastructure investments is 7% of the total cost as is shown in Figure 1 below.



*Figure 1. Distribution of potential funding sources for the \$421 million of infrastructure investment in South Lake Union.*

## Public Revenues from Potential South Lake Union Development

The private development activity in South Lake Union will generate public revenues through a variety of sources:

- Sales tax on construction
- Property tax
- Sales tax on retail sales
- Business and Occupation tax
- Utility taxes

To quantify these revenue streams, the City of Seattle contracted with a respected economist, Dr. Paul Sommers, to examine impacts of South Lake Union development on local and regional economies. His draft Potential Economic and Fiscal Impacts of South Lake Union Development report (Sommers Report) is being released in conjunction with this draft analysis.

The Sommers Report constructs an economic model for direct and indirect activity in South Lake Union, based upon the 2002 Heartland study of development capacity. Its scope is limited to the boundaries of the South Lake Union Hub Urban Village and does not calculate revenues based on development activity adjacent to South Lake Union<sup>7</sup>. To provide an appropriate comparison to the costs of infrastructure projects, the Sommers Report estimates public revenues to the City of Seattle and to other public agencies in Washington State.

### Direct Impacts

Direct impacts are those tax revenues that result from the current and projected development in the area and the likely increases in employment as these buildings come into service. In his report, Sommers estimates the City of Seattle will receive a net revenue increase of more than \$159 million in net present value direct impacts over the 2005-2025 period. The direct impact to the state is estimated to be \$545 million.

#### **Estimated Direct Tax Revenues Generated by Tax Stream (net present value, 2005-2025)**

	City of Seattle	Washington Public Sector
Sales Tax on Construction	\$11,904,398	\$123,246,687
Property	\$65,751,476	\$185,078,228
B&O	\$45,165,738	\$153,147,321
Retail Sales	\$2,551,720	\$26,418,055
Utility-Business	\$21,987,681	\$37,143,264
Utility-Residential	\$12,544,158	\$20,193,346
<b>Total Tax Revenue</b>	<b>\$159,905,170</b>	<b>\$545,226,900</b>

<sup>7</sup> While substantial development is occurring within South Lake Union, a slightly greater amount of real estate activity is occurring just to the south and north of the neighborhood.

Indirect Impacts

Economic activity generates more economic activity through a multiplier effect. Biotechnology jobs, in particular, create additional jobs in the economy through the purchase of goods and services. The Sommers Report uses an input/output model to estimate the additional economic activity and public revenues produced by indirect impacts from the projected development in South Lake Union. It also includes a sensitivity analysis that projects the likelihood of the indirect activity occurring within the City of Seattle.

Using these two measures, the report estimates a range of indirect economic impacts to the City of Seattle, giving a high and low estimate for indirect revenues. The indirect impact to the City of Seattle is a net revenue increase of \$64.7 to \$109.6 million. The indirect impact to all public agencies in the state is \$848 million in increased revenues.

**Estimated Indirect Tax Revenues Generated by Tax Stream  
(net present value, 2005-2025)**

	City of Seattle		Washington Public Sector
	Low	High	
Sales Tax on Construction	\$845,013	\$3,501,393	\$117,049,597
Property	\$28,209,394	\$41,933,674	\$299,383,696
B&O	\$27,761,061	\$49,939,020	\$298,882,489
Retail Sales	\$2,029,243	\$3,650,380	\$79,846,972
Utility	\$5,854,647	\$10,531,851	\$53,168,417
<b>Total Tax Revenue</b>	<b>\$64,699,358</b>	<b>\$109,556,318</b>	<b>\$848,331,171</b>

Total Economic Impacts

The total economic benefits from the potential development in South Lake Union is the combination of the direct and indirect impacts. The total tax benefit to the City of Seattle is between \$224 and \$269 million (\$247 million)<sup>8</sup> in net present value. The total potential economic benefit to all public jurisdictions statewide is \$1.39 billion.

**Estimated Total Tax Revenues Generated by Tax Stream  
(net present value, 2005-2025)**

	City of Seattle		Washington Public Sector
	Low	High	
Sales Tax on Construction	\$12,749,411	\$15,405,791	\$240,296,284
Property	\$93,960,870	\$107,685,150	\$484,461,924
B&O	\$72,926,799	\$95,104,758	\$452,029,810
Retail Sales	\$4,580,963	\$6,202,100	\$106,265,027
Utility	\$40,386,485	\$45,063,689	\$110,505,026
<b>Total Tax Revenue</b>	<b>\$224,604,528</b>	<b>\$269,461,488</b>	<b>\$1,393,558,071</b>

<sup>8</sup> The total economic benefit for other calculations in this report uses the average of the high and low range for indirect benefits.

## Public Costs and Public Benefits

### City of Seattle

The public return on infrastructure investments in South Lake Union is substantial. For the City of Seattle's General Fund, the tax revenue stream generated by the potential development activity in South Lake Union is eight times greater than the estimated cost of infrastructure improvements. These additional resources may be available for capital improvements in other parts of the city, for enhanced services within the South Lake Union neighborhood or to support the on-going costs of citywide operations. Additionally, city residents will be able to enjoy the benefits of a new regional park on Lake Union, enhanced transportation amenities and a new alternative transportation link.

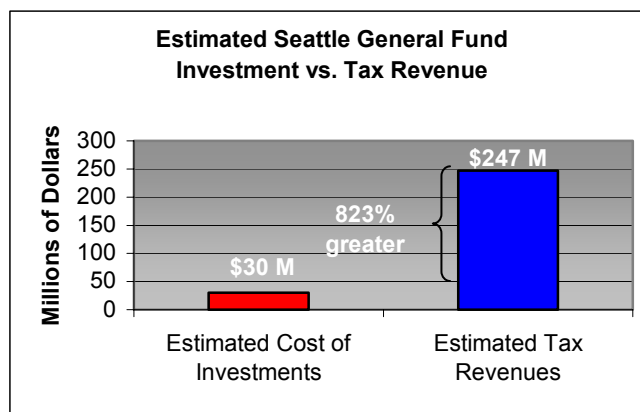


Figure 2. Comparison of City of Seattle General Fund investments in South Lake Union with potential Seattle General Fund revenues in net present value for 2005-2025 period.

### Statewide

The benefit to the entire state from this potential development in South Lake Union is also substantial. The tax revenue stream generated by the potential development activity in South Lake Union is seven times greater than the estimated cost of infrastructure improvements for all Washington State public sources.

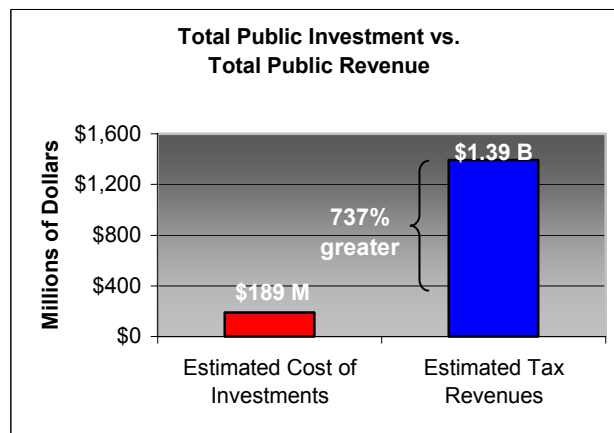


Figure 3. Comparison of Washington State investments in South Lake Union with potential tax revenues to Washington public agencies in net present value for 2005-2025 period.

## Risk of Public Investment

The potential return on the city's infrastructure investment must also be analyzed with regard to the risk of the private development not materializing and leaving the city with stranded capital costs. To assess the risk of public investment in South Lake Union, the Sommers Report analyzed the economic impacts for the development that is already permitted or substantially in the pipeline. Sommers defined these "Phase I" projects as those that will be completed before 2007. During this phase, more than 2.2 million square feet of commercial space and 830,000 square feet of residential development are scheduled. According to the Sommers Report, the net present value of the overall revenue stream from the Phase I projects is \$65 million between 2005 and 2025. Consequently, if only Phase I development occurs in South Lake Union, the City of Seattle will still enjoy a net revenue increase from South Lake Union activity of \$35 million if the City makes all of the investments described in this report.

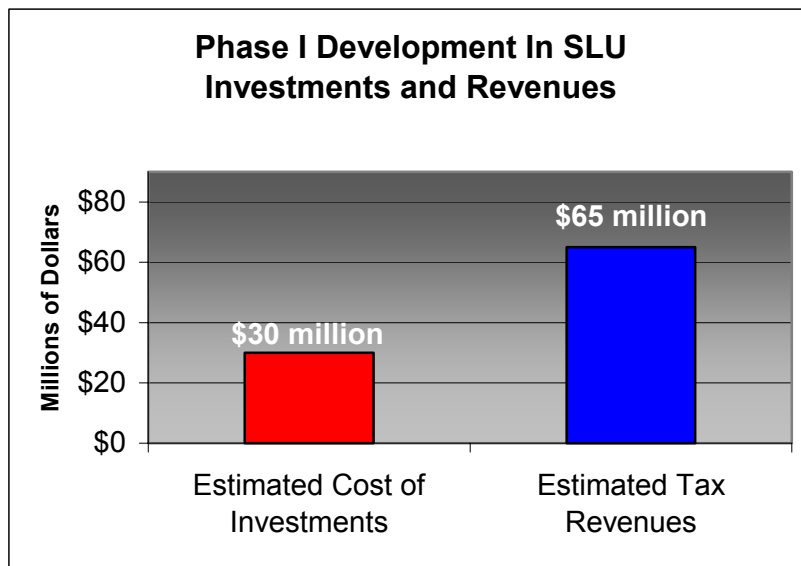


Figure 4. Comparison of infrastructure costs and tax revenues to the City of Seattle's General Fund for Phase I development only, in net present value for 2005-2025 period.

This data suggests that the risk to the City of Seattle of public infrastructure investment in South Lake Union is low. There is a high degree of certainty that enough development will take place to provide the City with a tax revenue stream that will cover all of the projected City General Fund capital costs for South Lake Union infrastructure improvements.

## Conclusion

The South Lake Union neighborhood is growing in jobs and housing and is targeted for further growth. Development activity projected in South Lake Union could generate more than 23,000 direct jobs. Combined with indirect impacts, this private investment may create between 32,000 and 39,000 total jobs in the City of Seattle. The economic activity associated with this potential job growth will generate an estimated \$247 million in net present revenues to the City and almost \$1.4 billion to public jurisdictions in Washington State between 2005 and 2025.

Public infrastructure investments are required to achieve this growth potential. More than \$421 million in infrastructure investments is planned for the South Lake Union neighborhood. The City of Seattle's General Fund share of this investment is estimated to be \$30 million, or 7% of the total. The total public investment for Washington State public jurisdictions is estimated at \$189 million. For both the City of Seattle and other jurisdictions in the State, this public investment will return a substantial return in tax revenues. The City of Seattle's General Fund may realize a return of up to \$217 million in net tax revenue due to the development in South Lake Union.

The risk of stranded costs to the City of Seattle and other public agencies is minimal. The currently planned development in South Lake Union will generate sufficient tax revenues to cover all of the projected capital costs of proposed infrastructure improvements.

<b>Estimated Net Revenue Generated by Potential South Lake Union Development Activity (in millions of dollars)</b>				
	City of Seattle		Washington Public Sector Total	
	Phase I	Phase I and Phase II	Phase I	Phase I and Phase II
Estimated Tax Revenues	\$65	\$247	\$267	\$1,394
Estimated Infrastructure Costs	\$30	\$30	\$189	\$189
Estimated Net Revenue	\$35	\$217	\$78	\$1,205

With these public investments in place, private sector economic activity will be encouraged to meet the growth potential of the South Lake Union neighborhood. If this growth potential is realized through Phase II development, the City of Seattle's General Fund may receive up to \$247 million, or an additional \$182 million in net new tax revenue over the Phase I estimated revenues. The total estimated economic impact to the City of Seattle of potential South Lake Union development is significant—up to 39,000 jobs created, 10,000 housing units constructed and up to \$247 million generated for the City's General Fund—while the risk of stranded capital costs is low.